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MONTHLY ECONOMIC REVIEW






June 2014

(Latest data as at 6 June)

Parliamentary Library Research Paper

A Overview

Recent trend

	2012/13	2013/14	
 Economic Growth	2.6%	2.7%	Annual average GDP Growth (December year)
 Unemployment	6.2%	6.0%	Unemployment Rate (March quarter)
 Inflation	0.9%	1.5%	Annual Inflation Rate (March year)
 Current Account Deficit	\$8.6b	\$7.5b	Current Account Deficit (December year)
 Interest Rates	2.64%	3.38%	90 Day Bank Bills (May month)

Latest data and events

Eleven of 14 regions recorded an expansion of economic activity in the March quarter according to the ANZ Bank's *Regional Trends* publication. The Northland region recorded the strongest growth in economic activity for the second consecutive quarter, with economic activity rising by 3.4 percent. Meanwhile, the Taranaki, Southland and Gisborne regions recorded a contraction in economic activity in the March quarter.

Fonterra has announced that its opening forecast farmgate milk price for the 2014/15 season is \$7 per kilogram of milksolids. In response to falling international dairy prices, the Co-operative also announced that its forecast payout for the 2013/14 season is to be reduced by 25 cents to \$8.40 per kilogram of milksolids. If the dividend of 10 cents is included, the total payout for the 2013/14 season for a fully shared-up farmer is \$8.50 per kilogram of milksolids. ANZ Bank economists estimate that the reduced payout for 2013/14 will reduce dairy farmers' incomes by \$395 million. International dairy prices fell a further 4.2 percent on a trade weighted basis in Fonterra's *Global Dairy Auction* undertaken in early June.

The value of building work undertaken rose by 17 percent on a seasonally adjusted basis in the March quarter, with strong growth recorded for both residential and non-residential building. Statistics New Zealand said that building activity in Canterbury rose by 25 percent in the March quarter (in current price, seasonally adjusted terms), with a 31 percent rise in residential building activity.

The REINZ announced that there were 5,670 dwellings sold in April, down 20.2 percent from April 2013, with all regions recording a drop in sales. The national median sale price was \$432,250 in April (\$611,000 in Auckland). The REINZ stratified median house price index for New Zealand rose by 0.1 percent in April, and was 8.5 percent higher than a year earlier.

Outlook

Economic indicators released to date suggest sizeable economic growth for the March quarter (to be released 19 June). The Treasury in the *Budget Economic and Fiscal Update 2014* has forecast a growth rate of 0.9 percent for the quarter. The unemployment rate has been forecast to decline gradually; the speed at which it eases is somewhat dependent upon growth in the labour force (which is influenced by migration flows). Consumer price inflation is expected to rise from its current level, but remain within the Reserve bank's target band of 1 – 3 percent over the forecast period.

Topic of the month: Permanent and long-term migration trends

Background

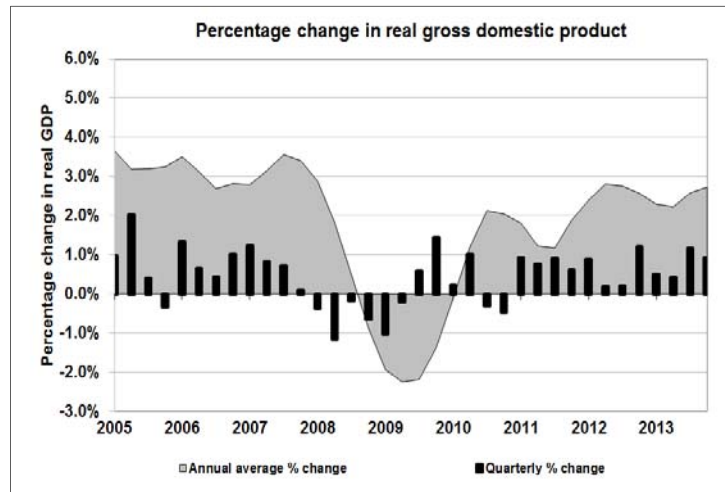
A country's gross domestic product (GDP) is a measure of economic activity during a set period of time, normally reported on a quarterly and an annual basis. It is the sum of money values of all final goods and services produced in an economy over a set period. The primary indicator used for tracking economic performance over time is known as real gross domestic product, or real GDP. Real GDP is gross domestic product adjusted for changes in prices. New Zealand's official gross domestic product figures are sourced from Statistics New Zealand.

Gross domestic product

Economic activity increased by 0.9 percent in the December 2013 quarter, and by 2.7 percent in the 2013 calendar year.

In the December quarter, the most significant contribution to economic growth came from the wholesale trade industry (up 3.2 percent) and the manufacturing industry (up 2.1 percent). There was a 3.1 percent rise in the volume of exports over the quarter, driven by an increase in dairy exports. Household consumption rose by 1.3 percent, with higher spending on durable goods (such as clothing and audio-visual equipment) and services.

Over the year construction activity expanded by 12.4 percent, while investment in residential housing rose by 17.4 percent. Household spending on durable goods rose by 7.4 percent over the year.



Other data

Retail sales volumes rose further in the March quarter (up 0.7 percent), with ten of the 15 store groups recording an increase in sales volumes. Electronic and electronic goods retailing recorded a 5.5 percent rise in sales volumes, while supermarket and grocery store sales volumes fell by 0.7 percent.

Business confidence fell in May, as surveyed by the *ANZ Business Outlook Survey*. A net 54 percent of firms expect an improvement in trading conditions in 12 months' time, down from a net 65 percent in April's survey.

Eleven of 14 regions recorded an increase in economic activity in the March quarter, according to ANZ's *Regional Trends*. The Northland region recorded the largest increase in economic activity (up 3.4 percent). The three regions which recorded a contraction in economic activity were Gisborne, Southland and Taranaki regions.

Outlook

The NZIER has forecast that the economic recovery will continue to strengthen. The Institute has the economy expanding by 3.2 percent in the year ended March 2014 and 3.5 percent in the 2014 calendar year. Westpac Bank has similar forecasts, and expects the economy to expand by 3.1 percent in the year ended March 2014, rising to 3.9 percent for the 2014 calendar year.

Year ended December 2013	Nominal GDP
Expenditure GDP	\$221,417 million
GDP per capita	\$49,655

Source: Statistics New Zealand.

ANZ Business Outlook Survey	Apr-14	May-14
Net % expecting an improvement in business conditions in 12 months' time	64.8	53.5
Net % expecting an improvement in their own firm's activity in 12 months' time	52.5	51.0

Source: ANZ Bank, Business Outlook survey.

GDP growth (%)	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Annual (year-on-year)	2.6	2.3	2.2	2.6	2.7
Quarterly (seasonally adjusted)	1.2	0.5	0.4	1.2	0.9

Source: Statistics New Zealand.

Next Release: Gross Domestic Product: March 2014 quarter. **Date:** 19 June 2014

Background

The unemployment rate measures the number of people unemployed as a proportion of those in the labour force. The labour force is the number of people of working age (15 years and over) who are working for wages or a salary, working for a family business, or who are unemployed and seeking work. In New Zealand, the official unemployment rate is sourced from Statistics New Zealand's quarterly Household Labour Force Survey.

Employment and unemployment

New Zealand's unemployment rate was six percent in the March 2014 quarter, the same rate as the December quarter (seasonally adjusted). Despite a 0.9 percent rise in employment during the quarter (driven by a 1.1 percent increase in full-time employment), the unemployment rate remained steady due to a 0.9 percent rise in the labour force. The labour force participation rate, at 69.3 percent, is at its highest level since the current survey commenced in the 1980s.

Over the year to the March 2014 quarter, employment rose by 3.7 percent, with full-time employment rising by 3.5 percent and part-time employment by 4.7 percent. Statistics New Zealand reported that those industries that recorded large rises in full-time employment included the construction industry, the business support services industry, and the wholesale trade industry.

New Zealand's unemployment rate was the 11th lowest out of 34 OECD member countries in the March 2014 quarter, having been the 12th lowest in the December quarter.

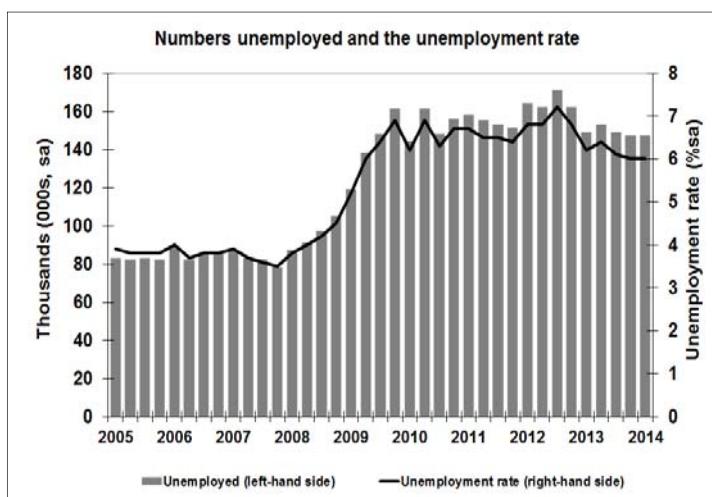
Other data

Job advertisements rose for the fourth consecutive month in April according to the *ANZ New Zealand Job Ads* survey. There was an increase in both internet and newspaper ads in April according to the survey (although newspaper ads continue to lose market share).

The Ministry of Business, Innovation & Employment's *Jobs Online* report, which focuses on job advertisement trends, noted that online job vacancies decreased in April, with ads for skilled jobs falling by 1.8 percent, and by one percent for all jobs (including non-skilled).

Outlook

The expansion for the labour force is blunting the impact of employment growth on New Zealand's unemployment rate. Despite this, economic forecasters expect the unemployment rate to continue to gradually ease. The ANZ Bank expects the unemployment rate to fall below six percent over the coming months. The Treasury and NZIER have both forecast an unemployment rate of 5.4 percent in the March 2015 quarter, while Westpac Bank has forecast an unemployment rate of 5.3 percent.



ANZ Business Outlook Survey	Apr-14	May-14
Net % expecting to increase employment in their business in 12 months*	29.8	29.8
Net % expecting the unemployment rate to rise in 12 months*	-48.0	-40.6

*equal to the % of respondents expecting an increase minus the % expecting a decrease. Source: ANZ Bank.

Quarter	Mar-13	Mar-14
Average ordinary time weekly earnings for FTEs (pre-tax) (\$)	\$1,031.39	\$1,064.55
Labour Cost Index - % change in salary and wage rates (including overtime) from the same quarter of the previous year	+1.7	+1.6

Source: Statistics New Zealand.

Household Labour Force Survey	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Unemployment Rate (seasonally adjusted, %)	6.2	6.4	6.1	6.0	6.0
Employment Growth (annual, %)*	0.4	0.7	2.4	3.0	3.7

*change since the same quarter of the previous year based on seasonally adjusted data. Source: Statistics New Zealand.

Next Release: *Household Labour Force Survey: June 2014 quarter.* **Date:** 6 August 2014

Background

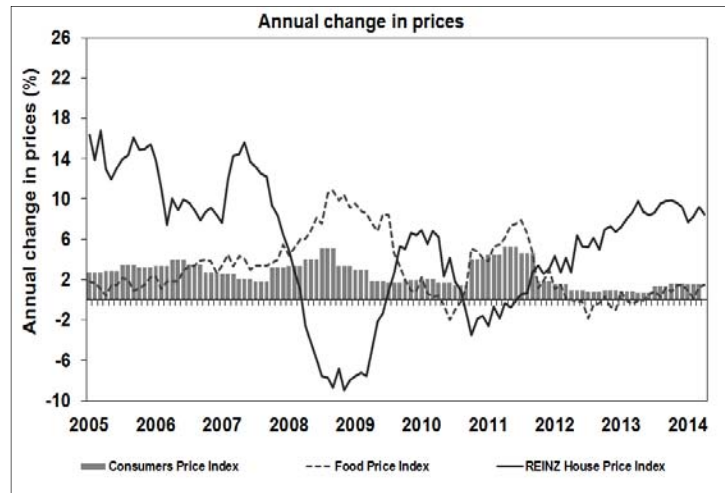
Inflation is the change in prices of goods and services over a certain period of time. The official rate of consumer inflation is measured by Statistics New Zealand's Consumers Price Index (CPI). The CPI tracks the price of a basket of household goods and services over time.

Consumers Price Index

The Consumers Price Index rose by 1.5 percent over the year ended in the March 2014 quarter. The annual rate was within the Reserve Bank's medium term target band of 1 – 3 percent, and below the two percent midpoint target.

Over half of the increase in consumer prices over the year was due to higher prices within the housing and household utilities group. Within this group, costs associated with the purchase of new housing rose by 5.1 percent over the year (up 7.6 percent in Canterbury and 5.9 percent in Auckland), and housing rental costs rose by two percent (up 4.9 percent in Canterbury and 2.3 percent in Auckland).

In the March 2014 quarter, consumer prices rose by 0.3 percent. The cost of cigarettes and tobacco rose by 10.2 percent in the quarter due to an increase in the excise duty from 1 January. Costs associated with newly built houses rose by 1.2 percent over the quarter, while house rental costs rose by 0.6 percent. Seasonally lower prices for international airfares saw prices falling by 10.1 percent in the March quarter, while vegetable prices fell by 5.8 percent.



Other data

The REINZ stratified median housing price index rose by 0.1 percent in April, and was 8.4 percent higher than a year ago (for Auckland, the index rose by 15.2 percent over the year). There were 5,670 dwellings sold nationally in April, down 20.2 percent from April 2013 (with a larger decline in dwellings sold in the under \$400,000 price bracket). The national median house price was \$432,250 in April (\$611,000 in Auckland).

Quotable Value's house price index rose by 0.7 percent over the last three months, and by 8.2 percent over the year. Quotable Value reported a national average house price of \$471,791 in May.

Annual Percentage Change (%)	Apr-14	May-14
Quotable Value – Residential property values*	8.4	8.2
REINZ Stratified Median Housing Price Index**	8.5	n/a
Food Price Index**	1.5	n/a

*change since the same three months ended in the month of the previous year
 **change since the same month of the previous year. Sources: Quotable Value; REINZ; Statistics New Zealand

ANZ Business Outlook Survey	Apr-14	May-14
Net % of respondents expecting to increase prices in 3 months' time*	30.2	27.5
Inflation expected in 12 months' time	2.59	2.55

*equal to the % of respondents expecting an increase minus the % expecting a decrease. Source: ANZ Bank.

Outlook

Despite pockets of inflationary pressures, the annual inflation rate is forecast to rise gradually and remain within the Reserve Bank's target band. The Treasury and Westpac Bank have forecast an annual inflation rate of 1.8 percent for the year ended March 2015.

Inflation (%)	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Consumers Price Index - Annual	0.9	0.7	1.4	1.6	1.5
Tradables inflation	-1.1	-1.6	-0.5	-0.3	-0.6
Non-tradables inflation	2.4	2.5	2.8	2.9	3.0
CPI - quarterly	0.4	0.2	0.9	0.1	0.3

Source: Statistics New Zealand.

Next Release: Consumers Price Index: June 2014 quarter.

Date: 16 July 2014

Background

The balance of payments is the record of the receipts and payments between a country's residents and the rest of the world, over a given period. The current account is that part of a country's balance of payments which embraces its transactions of goods, services, international income, and current transfers (e.g. foreign aid). A "balance of payments deficit" refers to a deficit of the current account.

Current account deficit

New Zealand's current account deficit totalled \$7,547 million in the year ended December 2013, equivalent to 3.4 percent of GDP.

As at 31 December 2013, New Zealand's net international investment deficit position, the net amount we owe the rest of the world in debt and equity, was \$147,564 million (equivalent to 66.6 percent of GDP).

The total value of international reinsurance claims associated with the Canterbury earthquakes has been estimated at \$18,972 million, of which \$5,925 million remained outstanding as at 31 December 2013.

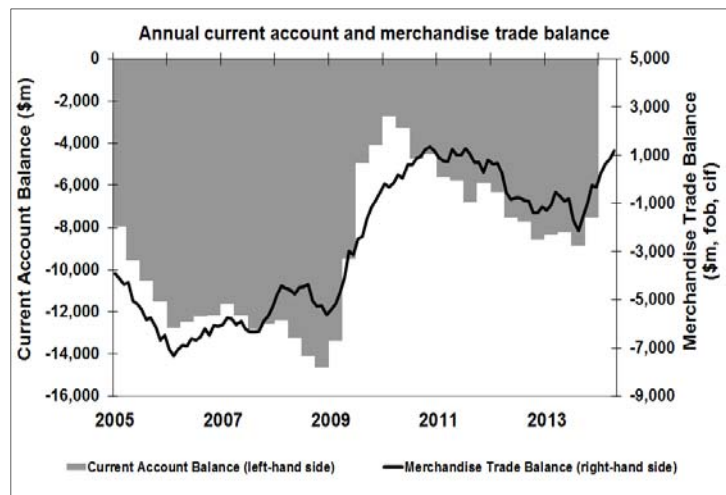
Other data

New Zealand's terms of trade rose for the fifth consecutive quarter in the March quarter, reaching its highest level since 1973. The terms of trade is expected to drop back over the coming quarters given falling dairy prices.

International commodity prices fell by 2.2 percent in May according to the latest *ANZ Commodity Price Index*, with international prices 3.1 percent lower than a year ago. A drop in international dairy prices led the fall. Dairy prices have fallen in each of the last eight *Global Dairy Trade* auctions, with prices 25.8 lower than those recorded in early February (on a trade weighted basis). Prices fell by 4.2 percent in the latest auction held in early June.

Outlook

The current account deficit has been forecast to fall in the near term. The Treasury in the *Budget Economic and Fiscal Update 2014* has forecast a deficit of \$7,017 million for the year ended March 2014, equivalent to 3.1 percent of GDP. The NZIER has forecast a similar deficit as a proportion of GDP, at three percent, for the year ended March. The Treasury then has the deficit widening in future years, whereas NZIER has the current account deficit falling to a level equivalent to 2.9 percent of GDP in the year ended March 2015.



Annual Change (%)	Apr-14	May-14
World Commodities Prices*	-2.5	-3.1
NZ\$ Commodities Prices*	-3.4	-6.0
Overseas Visitors**	6.1	n/a

*change since the same month of the previous year. **change since the previous year-end. Sources: Statistics New Zealand; ANZ.

Balances (\$m)	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Apr-14
Quarterly Current Account (seasonally adjusted)	-2,142	-1,770	-2,212	-2,577	-837	n/a
Annual Current Account	-8,590	-8,349	-8,244	-8,871	-7,547	n/a
Goods	150	567	267	-294	1,332	n/a
Services	1,234	1,060	1,101	1,097	1,082	n/a
Income	-9,454	-9,484	-9,026	-9,084	-9,440	n/a
Current transfers	-520	-492	-586	-589	-521	n/a
Net international investment position (as at date)	-152,809	-151,284	-151,366	-149,522	-147,564	n/a
Annual Merchandise Trade Balance (fob-cif)*	-1,155	-521	-819	-1,559	-317	1,191

* CIF – Cost of goods imported, including insurance and freight to New Zealand. FOB – Free on board, the value of goods at New Zealand ports before export. Source: Statistics New Zealand.

Next Release: *Balance of Payments: March 2014 quarter.* **Date:** 18 June 2014

Background

The trade weighted index (TWI) is an index of the New Zealand dollar's value against a basket of five overseas currencies, where each currency is weighted by a combination of the size of the associated country's trade with New Zealand (including the Euro group of countries) and their gross domestic product. The official cash rate (OCR) is the interest rate that applies to overnight borrowing and lending between banks and the Reserve Bank. It is currently a key operational feature of monetary policy in New Zealand. The NZX 50 is the main share index of the New Zealand Exchange. It tracks changes in the share prices of the top 50 publicly listed companies by free float market capitalisation on the NZX market. It is a gross index, so it includes the payout of dividends in its calculation.

Recent trends & data

Reserve Bank Governor, Graeme Wheeler, lifted the official cash rate in April for the second time this year, increasing the OCR by 25 basis points to three percent.

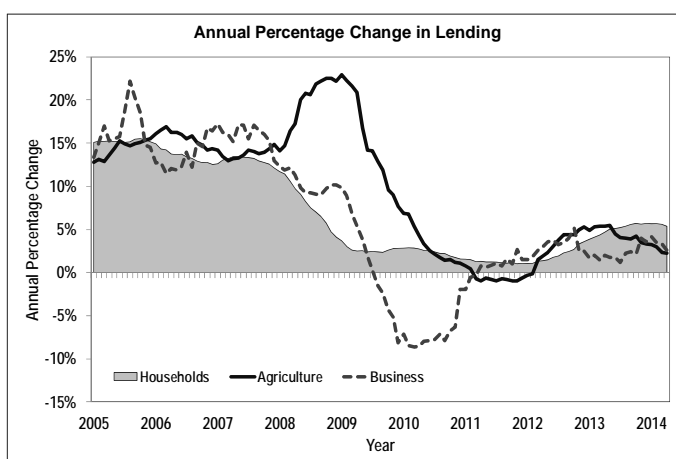
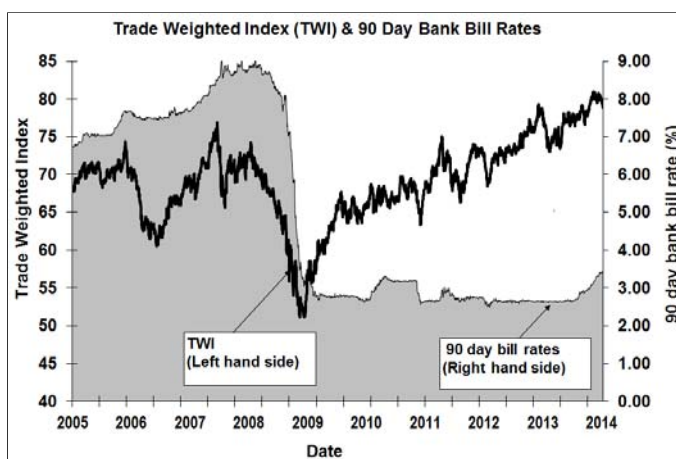
The trade weighted index (TWI) remained at a high level with the exchange rate up 11 percent from a year earlier against the Australian dollar and four percent against the United States dollar but falling against sterling and the euro. The TWI averaged 80.09 index points during May, up 3.6 percent from a year earlier.

Latest high loan-to-value (LVR) residential mortgage lending equated to 4.3 percent of new lending in April (after exemptions) up from 3.6 percent in March. In the May *Financial Stability Report* the Reserve Bank estimated that *"in the absence of LVR restrictions, annual house price inflation could have been around 2.5 percentage points higher in the year to March 2014."*

The year on year percentage change in agricultural lending has fallen from 5.4 percent in April 2013 to 2.3 percent in April 2014.

Outlook

A further tightening of monetary policy is expected. In its March *Monetary Policy Statement*, the Reserve Bank projected that the 90-day bank bill rate would rise by around 130 basis points during 2014, to average four percent in the December 2014 quarter. Commentators such as Westpac have suggested recently, that although the financial markets are expecting a slowing of the tightening cycle, rate rises might slow to quarterly but otherwise continue as forecast by the Reserve Bank in March. The next rise is expected in June.



Core Crown borrowing as at	30-Apr-14 (\$m)	30-Apr-14 (%GDP)
Gross sovereign-issued debt *	83,039	37.5
Net core Crown debt **	62,252	28.1

*Excluding Reserve Bank settlement cash and Reserve Bank bills.

** Excluding NZ Super Fund and other advances. Source: The Treasury.

Monthly averages	Jan-14	Feb-14	Mar-14	Apr-14	May-14
90 Day Bank Bill rate	2.88	2.93	3.05	3.24	3.38
10 Year Government Bond yields (secondary market)	4.64	4.57	4.58	4.55	4.29
Effective mortgage rate	5.51	5.52	5.55	n/a	n/a
Business lending rate	5.37	5.41	5.50	n/a	n/a
Trade Weighted Index (TWI) exchange rate	78.40	77.96	79.68	80.20	80.09
NZX 50 index	4881	4896	5110	5110	5173

Sources: Reserve Bank; NZX.

Next Official Cash Rate (OCR) decision: 12 June 2014

Background

New Zealand's economic growth rate, unemployment rate and central bank interest rates are compared with our main OECD trading partners. The first table below illustrates the seasonally adjusted quarterly growth rates in economic activity. The second table below shows the harmonised unemployment rate in each OECD country/area, while the third shows the main central bank interest rates for various countries (and currency group in the case of the Euro), along with the date and direction of the latest movement for each.

Economic growth

Economic activity expanded by 0.4 percent in the OECD area in the March quarter. Of those 34 member countries of the OECD, 24 have published GDP data for the March quarter. Of these countries, 16 recorded economic growth.

Strong growth of 1.5 percent was recorded in Japan during the March quarter, following a much weaker 0.1 percent growth in the previous quarter. There was a significant increase in household spending, with households purchasing items prior to a rise in the sales tax from 1 April 2014.

The United States economy contracted in the March quarter. This was due to a reduction in held inventory, especially by motor vehicle dealerships. The harsh winter is also thought to have had an impact upon economic output over the March quarter.

Quarterly economic growth rates (%)			
Country*	Sep-13	Dec-13	Mar-14
Australia	0.6	0.8	n/a
Japan	0.3	0.1	1.5
NEW ZEALAND	1.2	0.9	n/a
United Kingdom	0.8	0.7	0.8
United States	1.0	0.7	-0.2
Euro area	0.1	0.2	0.2
OECD Total	0.7	0.5	0.4
China	2.3	1.7	1.4

Notes: * Seasonally adjusted growth rate from the previous quarter.
Source: OECD.

Unemployment

The harmonised unemployment rate within the OECD area has been steady at 7.5 percent during the first three months of 2014. For those aged 15 – 24 years, the harmonised unemployment rate within the OECD area was 15.5 percent in March, up slightly from the previous month. Youth unemployment remains a significant problem in a number of European countries. Greece has a youth unemployment rate of 56.8 percent, followed by Spain (53.9 percent) and Italy (42.7 percent). New Zealand's youth unemployment rate was 15.5 percent in the March quarter according to the OECD.

Harmonised unemployment rates (%)			
Country	Feb-14	Mar-14	Apr-14
Australia	6.0	5.8	5.8
Japan	3.6	3.6	n/a
NEW ZEALAND	n/a	6.0 (qtr)	n/a
United Kingdom	6.8 (Jan)	n/a	n/a
United States	6.7	6.7	6.3
OECD Total	7.5	7.5	n/a

Sources: OECD; Australian Bureau of Statistics.

Central banks

The Australian Reserve Bank left their cash rate steady at 2.5 percent in early June. Reserve Bank Governor, Glenn Stevens noted that there is a strong expansion in housing construction underway, with moderate growth in consumer demand also occurring. However, investment in the resources sector is expected to "...decline significantly". He noted that given current economic conditions that "...the most prudent course is likely to be a period of stability in interest rates".

Central Bank interest rates (as at 6 June 2014)				
Central Bank	Key Rate	Interest Rate (%)	Effective from	Direction (Basis points)
Australia	Cash Rate	2.50	7-August-13	-25
China	Benchmark lending rate	6.00	6-Jul-12	-31
European Central Bank	Main Refinance Rate	0.15	11-Jun-14	-10
Japan	Uncollateralized overnight rate	0.00 - 0.10	5-Oct-10	-10
NEW ZEALAND	Official Cash Rate	3.00	24-Apr-14	+25
United Kingdom	Bank Rate	0.50	5-Mar-09	-50
United States	Federal Funds Rate	0.00 – 0.25	16-Dec-08	-75

Source: Central Bank interest rates as at the date stated.

Permanent and long-term migration patterns

As part of their monthly *International Travel and Migration* series, Statistics New Zealand publishes figures on permanent and long-term migration (PLT) for New Zealand. Permanent and long-term migration includes migrants arriving or departing New Zealand for a period of 12 months or more (including permanently). Permanent and long-term arrivals include New Zealand residents who have been overseas for 12 months or more, while PLT departures include overseas visitors who have been in New Zealand for 12 months or more. Any change in migrant intentions are not recorded in the official figures (i.e. if someone arrives in New Zealand for an 18 month period but then leaves after six months, they would be counted as a permanent and long-term migrant on arrival, but a short-term visitor on departure).

Since September 2012, net migration has been positive on a monthly basis (in seasonally adjusted terms). During the month of April 2014 there was a net gain of 4,080 permanent and long-term migrants to New Zealand. According to Statistics New Zealand, this was the second highest monthly figure recorded (the highest was recorded in February 2003, with a net gain of 4,730 in seasonally adjusted terms).

In the year ended April 2014, there was a net gain of 34,366 permanent and long-term migrants, compared with a net gain of 4,776 in 2013 (a net increase of 29,590). The majority of the increase in net migration over the year has been driven by a reduction in the number of those departing (falling by 17,996 over the year). There was also an 11,594 increase in the number of PLT arrivals over the previous year. Around a fifth of PLT arrivals are from Australia, followed by the United Kingdom (14.2%), China (8.7%), and India (7.7%).

Total permanent and long-term migration			
Year ended April	Arrivals	Departures	Net PLT arrivals
2010	83,620	63,666	19,954
2011	83,456	77,948	5,508
2012	83,807	87,813	-4,006
2013	87,217	82,441	4,776
2014	98,811	64,445	34,366

When we look at permanent and long-term migration figures for New Zealand citizens, there was a net loss of 14,297 people in the year ended April 2014, down from a net loss of 32,247 people in the previous year. During the latest year there was an increase in the number of New Zealand citizens arriving back in the country after spending 12 months or more overseas, and a larger reduction in the number of New Zealand citizens departing offshore for a period of 12 months or more.

Permanent and long-term migration of New Zealand citizens			
Year ended April	Arrivals	Departures	Net PLT arrivals
2010	26,394	38,856	-12,462
2011	24,181	51,415	-27,234
2012	22,497	61,988	-39,491
2013	24,367	58,614	-34,247
2014	27,601	41,898	-14,297

A net 14,844 New Zealand citizens left New Zealand for Australia in the year ended April 2014 for a period of 12 months or more, down from a net 35,111 in the previous year. During the year ended April 2014, there were 14,170 New Zealand citizens who moved back from Australia (10,548 in 2013) and 29,014 New Zealand citizens moving to Australia for a period of 12 months or more (45,659 in 2013).

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